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Science & Technology Alliance

Report

Striving to promote a partnership between government, academia & business

Montana Supreme Court Declares MSTA's Seed Capital Bond Bill Unconstitutional

On Thursday, July 21, 1988, the Montana Supreme Court rendered a decision in favor of the plaintiffs in the case of White v. State of Montana which was filed to test the constitutionality of House Bill 700, the Alliance's seed capital bond bill. New bond funding programs are routinely tested before the Supreme Court prior to the initial sale of bonds to establish constitutionality. The Science and Technology test case was thus filed with the Court in January, 1988, and oral arguments were heard by the Court on May 11, 1988.

H.B. 700, enacted during the 1987 legislative session, would have allowed the Alliance to issue up to $16 million in bonds over the next five years to finance seed capital investments in firms trying to develop and market technology-based products. The bonds were to be backed by the coal severance tax trust fund and were to be retired with the investment earnings made to the Alliance by the companies which received investments. If there were not sufficient earnings realized from the investments, the difference was intended to be made up by taking money from the coal tax trust to subsidize debt service on the bonds.

The Court found that H.B. 700 violated the state constitution in three ways: the statute violated the constitutional prohibition against pledging the credit of the state to secure bonds and then use the resultant public funds (bond proceeds) to benefit private companies; the statute contained an improper delegation of legislative authority; and the statute contained a defect in the title of the bill.

MSTA To Make No New Investments

As a result of the Supreme Court decision White v. State of Montana, the Science and Technology Development Board will take the following actions upon advice of counsel, regarding its future actions on investments in research and development projects and start-up businesses:

- No new investments will be made in projects not now under contract until the 1989 legislature has the opportunity to change the MSTA legislation to address the concerns of the Court.
- Existing investments now under legally binding contract will be addressed by the board in only ministerial matters.

This immediately affected three investment commitments that were either contingent upon the issuance of bonds or upon the company's ability to secure adequate matching capital. The first two included an offer to make a $250,000 investment in Crysonics, Inc., of Oregon and a similar offer to invest an additional $350,000 in MSI Detoxification, Inc., of Bozeman. The third

The Alliance will work to develop renewed investment authority and adequate funding for the next biennium

commitment involved an offer to invest $250,000 in Electromet, Inc., a Utah company proposing to establish manufacturing operations in Bozeman. Eight other seed capital investment projects that were under discussion will no longer be pursued. Several of these involved out-of-state firms looking to move to Montana.

During the remainder of the biennium, the Alliance will focus its efforts on two areas. First, the Alliance will continue to monitor and manage its existing portfolio of investments. Second, the Alliance will work with business and political leaders to develop a means for the Alliance to secure renewed investment authority and adequate funding for the next biennium in order to resume making technology investments.

Created in 1985, the Alliance was chartered to make investments in technology research and technology-based companies that, in the long run, would create jobs and help to diversify Montana's economy. During the two and one-half years of its technology investment program, the Alliance has placed technology investments totaling $2,960,329 in 36 projects in both the research and development and seed capital areas. These funds have been matched with $3,918,530 in private funds for a total of $6,878,859 being expended in Montana to further stimulate and strengthen the state's economy. In its seed capital investment program alone, the Alliance has invested $720,000 in seven technology-based companies. These companies have matched the Alliance's funds with $1,380,871 of private funding. If successful, these companies could create up to 580 new jobs in Montana by 1994.

Chairman Stephen Browning said that while the inability to make new investments will not shut down the Alliance's activities, in view of the court's ruling, the board felt it simply has no authority to proceed with any new investments.

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MSTA Provides Initial Financial Support to the Entrepreneurship Resource and Assistance Institute

The board voted to provide a $99,840 technology transfer and technical assistance investment in a multi-campus entrepreneurship resource and assistance institute. While the University of Montana's School of Business Administration has been designated the lead institution, the College of Business at Montana State University and the School of Business and Economics at Eastern Montana College will participate as equal partners in this collaborative effort. Drs. Larry Gianchetta, James L. Brock and Andre Corbeau, deans from the above three institutions, respectively, will direct the institute's activities at their campuses.

Drs. Larry Gianchetta, James Brock, Andre Corbeau meet to discuss the Entrepreneurship Resource and Assistance Institute.

The funds will be used as a one-year planning study to accomplish four activities: 1) conduct a needs assessment analysis to ensure that the institute will provide those services most needed by Montana's inventors/new ventures/entrepreneur community; 2) plan and begin developing an extensive data base which inventories the available venture and business development support services and knowledge base; 3) establish a board of directors for the institute and boards of advisors for each of the three locations made up of private sector individuals; and 4) address the structure and mechanics of the institute for subsequent years of operation.

The institute will provide assistance to entrepreneurs at various stages of development, from inventors wishing to explore the commercial possibilities of new products or processes to established, high growth businesses wishing to expand, seek new markets or licensees or extend product lines. While the services available through the institute are diverse, the three campuses will focus on their own areas of expertise.

By November of this year the institute will formulate an operations and development plan outlining the structure and mechanics and the activities to be provided by the institute in subsequent years. It is anticipated that the Alliance's investment in the institute will be the "seed" money to initiate the program and that the university system will seek expanded funding levels from the governor and the 1989 legislative session to support the institute.

Technology Centers of Excellence Making Progress

The three advanced technology centers of excellence approved by the Alliance board earlier in the year continue to make progress toward the completion of five-year development and operations plans, mandated by the board before significant funding can be disbursed.

The Biotechnology Center, under the leadership of Dr. Walter Hill at the University of Montana, was the first to submit its operations plan, which is currently undergoing evaluation by a panel of reviewers selected by the Alliance staff. Once the evaluation process is completed, the remaining funds will be disbursed for use according to the center's plan.

The Advanced Materials Center, under the direction of Dr. Gerald Lapeyre at Montana State University, is expected to submit its operations plan in early August, while the third center, Advanced Minerals and Hazardous Waste Processing, intends to submit its plan by early September. The latter center's planning process started with a decision to narrow its technology focus to minerals and hazardous waste from the much broader " value added processing" proposed originally.

Alliance staff expects to have all the technology review processes completed for each center within two months of receipt of a final plan. It is also planned that a report will be ready for the governor and the 1989 legislature containing recommendations for future directions and funding for the centers of excellence program.

The purpose of the centers of excellence program is to stimulate additional applied research activity in those technology areas which constitute research strengths in the university system and which appear to have the most significant potential for facilitating economic development in Montana. The primary mechanism for accomplishing this will be through the Alliance assisting in the process of upgrading even further research capabilities which currently exist in the key university units and by encouraging private sector companies with an interest in the research being performed to assume a more active role in helping to steer this research activity. Montana's program is being patterned after similar efforts in other states throughout the nation.

Montana Science & Technology Alliance

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MSTA Invests in Seven Research and Development Technology Projects

The Montana Science and Technology Alliance board of directors voted to place research and development technology investments totalling $289,150 in seven projects at its recent meetings.

The board voted to invest $99,840 as a technology transfer and technical assistance investment in an Entrepreneurship Resource and Assistance Institute. (see separate article on page two).

The board voted to invest $91,200 in an applied research project proposed by Dr. Earl O. Skogley of Montana State University. The funds will be matched with a research investment by a major soil testing laboratory. The three-year project will continue the development of a phytoavailability soil test which simulates the nutrient uptake by plant roots (hence the name phytoavailability) and development of a kit which could be used to initiate the soil extraction process as soon as the soil sample is collected and allow the sample to incubate in transit to the testing laboratory.

If successful, it is anticipated that a company will be created in Bozeman to manufacture the test kits. The resultant test kit will provide an additional tool for farmers to increase Montana's agricultural efficiency, profits and competitiveness.

The board voted to invest $11,900 in a technology transfer and technical assistance project proposed by Dr. Paul Larson of the University of Montana to write a book which will be an information source for starting and operating businesses in Montana.

Dr. Earl O. Skogley at work on the phytoavailability soil test.

The board voted to invest $5,500 in a technology transfer and technical assistance project proposed by the Butte-Silver Bow Business Development Center to sponsor an incubator informational outreach conference on Friday, September 16, 1988 in Butte. It is hoped that the conference will provide a means for participants from across Montana to explore ways to assess their communities' need for and ability to support a business incubator. The registration fee is $50. Interested parties should contact James Kambich, Director of the Butte-Silver Bow Business Development Center at 406/723-4061.

The board voted to invest $40,000 in a technology transfer and technical assistance project to be administered by the Montana Ambassadors. A 12-member commitee made up of four members each from the private sector, government and the university system was appointed to undertake a six-month study to develop a multi-year operational statewide telecommunications plan and to obtain support for the plan by groups, organizations, associations and public officials throughout Montana.

Scheduled to be completed this November, the committee's report will be presented to the governor and 1989 legislature and will include a proposed multi-year operational telecommunications plan for the state, that if adopted, could make Montana competitive against other areas that are pursuing information based industrial and/or governmental projects dependent upon telecommunications.

The board also invested $15,000 in a research capability development project proposed by Dr. Geoff Richards of the University of Montana's Wood Chemistry Laboratory. The funds will be used to purchase a gas chromatograph and interface which would couple with an existing mass spectrometer and computer work station to create a gas chromatograph/mass spectrometry system. The matching funds were used to purchase the mass spectrometer in this GC/MS system for the lab.

Finally, the board voted to invest an additional $25,710 in an applied research project proposed by Dr. Nellie Stark of the University of Montana. An equal amount of matching funds for the project is provided by a series of federal grants. In July of 1986, the Alliance invested $36,000 in Dr. Stark's three-year huckleberry project on the feasibility of domestic cultivation of huckleberries at low elevations and semi-cultivation at higher elevations. Currently, Dr. Stark is finishing the second year of the initial research and will use the additional funds to continue the research work necessary to move the wild huckleberry from the field to a cultivated crop capable of generating new business in the Montana huckleberry food products industry.

Executive Director Resigns

Sam Hubbard, executive director of the Montana Science and Technology Alliance since 1985, will be leaving the program on August 19th to pursue opportunities in the private sector. He announced his plans in late June.

Hubbard will be moving to Denver, Colorado, to explore the feasibility of establishing a private venture capital fund which will concentrate on seed stage investment opportunities sourced primarily from research and development institutions in the Rocky Mountain region, including Montana. In addition to working on the establishment of the new investment fund, Hubbard will also perform various consulting duties over the next several months for a number of clients.

In announcing his resignation, Hubbard expresssed great satisfaction over his tenure with the Science and Technology Alliance. "We were able in three short years to move the program from being completely new and untested to being a significant force for stimulating entrepreneurial economic development in both the research and commercialization sectors of Montana's economy," he said. "While the Supreme Court decision overturning H.B. 700 was deeply disappointing, I am very confident that a solid foundation of support exists in the business and political communities in the state to assure that the problems raised by the Court can be satisfactorily addressed during the upcoming legislative session." Hubbard also complimented the Alliance board members on their dedication and support for the program and its staff over the past three years. "I am confident that the Alliance is in good hands and will continue to flourish in the years to come," he said.

Keith Colbo, director of the Department of Commerce and a member of the MSTA board of directors, will be responsible for selecting a new executive director. He indicated that the recruitment and selection process is already well underway and that he hopes to have a decision on a replacement for Hubbard by early September.

MSTA INVESTMENT PORTFOLIO

for Fiscal Year 1988

	Commitment Amount	
SEED CAPITAL INVESTMENTS		
Health Incentives	$100,000	
Infotech	150,000	
Seed Capital Total		$250,000
RESEARCH AND DEVELOPMENT INVESTMENTS		
Applied Research		
MSU/Dr. Donald W. Boyd	$ 28,750	
Hydro Processing & Mining of Montana, Inc.	197,000	
MSU/Dr. Earl Skogley	91,200	
UM/Dr. Nellie Stark	25,710	
Research Capability Development		
MSU/Advanced Materials Center	$200,000	
UM/Biotechnology Center	200,000	
MT Tech/Advanced Minerals & Hazardous Waste Processing	200,000	
MSU/Dr. W.G. Characklis	28,999	
UM/Dr. Geoff Richards	15,000	
Technology Transfer and Technical Assistance		
UM/Entrepreneurship Resource and Assistance Institute	$99,840	
CVM Ventures	36,000	
Billings Chamber of Commerce	15,000	
Montana Ambassadors	40,000	
Butte-Silver Bow Business Development Center	5,500	
UM/Dr. Paul Larson	11,900	
Research and Development Total		$1,194,899
Total Seed Capital and Research and Development		**$1,444,899**

MSTA Meetings

October 6, 1988
Helena, Montana

November 16, 1988
Missoula, Montana

Summary of MSTA Funding Requests for Fiscal Year 1988

Inquiries	194
Executive Summaries	80
Summaries with University Participation	33
Alliance Funds Requested in Summaries	$18,620,847
Private Matching Funds	$25,534,127
Total Project Costs from Summaries	$44,154,974

Funding Requests by Program Category

Seed Capital	47	$15,764,204
Research and Development	33	$ 2,856,643

Funding Requests by Geographic Region

Bozeman	25	Billings	3
Out-Of-State	10	Belgrade	2
Missoula	8	Bigfork	2
Butte	7	Kalispell	2
Helena	6	Whitefish	2

Dagmar, Ennis, Great Falls, Hamilton, Livingston, Lolo, Malta, Opportunity, Ronan, Stevensville, St. Ignatius, Havre, Dillon — 1 each

If you want more information;

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Montana Science & Technology Alliance

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